

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF SEDALIA WATER )  
DISTRICT FOR A RATE ADJUSTMENT )  
PURSUANT TO THE ALTERNATIVE RATE ) CASE NO. 95-585  
FILING PROCEDURE FOR SMALL UTILITIES )

O R D E R

On December 27, 1995, Sedalia Water District ("Sedalia") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of Sedalia's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 6th day of February, 1996.

ATTEST:

  
Executive Director

PUBLIC SERVICE COMMISSION

  
For the Commission

COMMONWEALTH OF KENTUCKY  
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STAFF REPORT

Prepared By: Karen Harrod, CPA  
Public Utility Financial  
Analyst, Chief  
Revenue Requirements  
Division of Financial Analysis

Prepared By: John Geoghegan  
Public Utility Rate Analyst,  
Chief  
Communications, Water and  
Sewer Rate Design Branch  
Division of Rates and Research

STAFF REPORT

ON

SEDALIA WATER DISTRICT

CASE NO. 95-585

On December 27, 1995, Sedalia Water District ("Sedalia") filed an application with the Kentucky Public Service Commission ("Commission") seeking approval to increase its tariffed water rates by 15.9 percent, an increase in annual operating revenues of \$4,194. Sedalia requested assistance from Commission Staff ("Staff") in the preparation of its Alternative Rate Filing Application as allowed pursuant to 807 KAR 5:076, Section 2. In order to assist in the preparation of this application, Staff performed a limited financial review of Sedalia's test year operations, the fiscal year ended June 30, 1995.

In its application Sedalia requested a waiver be granted from 807 KAR 5:076, Section 2, with regard to the information in the application being based on the most recent annual report filed, or calendar year 1994. The waiver was granted by Order dated January 19, 1996.

The scope of the review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Karen Harrod of the Commission's Division of Financial Analysis performed the limited review on June 21 and September 6,

1995. Ms. Harrod is responsible for the preparation of this Staff Report except for the determination of Normalized Operating Revenue, Rate Design, and Attachment C, which were prepared by John Geoghegan of the Commission's Division of Rates and Research.

A copy of Sedalia's Adjusted Net Operating Income Statement is shown on Attachment A. Attachment B details the revenue requirement determination. Staff recommends that Sedalia be allowed to increase its annual operating revenues by the requested amount of \$4,194. The rates contained in Attachment C will achieve Staff's recommended level of revenue.

Signatures

Karen Harrod, CPA

Prepared By: Karen Harrod, CPA  
Public Utility Financial  
Analyst, Chief  
Revenue Requirements Branch  
Financial Analysis Division

John Geoghegan

Prepared By: John Geoghegan  
Public Utility Rate Analyst,  
Principal  
Communications, Water and  
Sewer Rate Design Branch  
Division of Rates and Research

ATTACHMENT A  
STAFF REPORT CASE NO. 95-585

SEDALIA WATER DISTRICT  
STATEMENT OF OPERATIONS  
Test Year Ended 6/30/95

	<u>Test Year</u>	<u>Recommended Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues:			
Water Sales	\$ 26,525	\$ (175) (1)	\$ 26,350
Other Operating Revenues	<u>743</u>	<u></u>	<u>743</u>
Total Operating Revenues	\$ 27,268	\$ (175)	\$ 27,093
Operating Expenses:			
Contract Labor - Operator	\$ 4,680	\$ (360) (2)	\$ 4,320
Contract Labor - Bookkeeping	2,080	(160) (3)	1,920
Commissioner Fees	150		150
Insurance Expense	993		993
Purchased Power	2,250		2,250
Office Supplies & Expense	1,648	34 (4)	1,682
Repairs & Maintenance	4,298		4,298
Legal & Accounting	3,600	(2,100) (5)	1,500
Chemicals	773	397 (6)	1,170
Water Testing Expense	1,677		1,677
Operating Supplies	103		103
Depreciation Expense	3,425		3,425
Amortization Expense	32		32
Miscellaneous Expense	<u>184</u>	<u></u>	<u>184</u>
Total Operating Expenses	\$ 25,893	\$ (2,189)	\$ 23,704
Operating Income	\$ 1,375	\$ 2,014	\$ 3,389
Interest Income	<u>161</u>	<u></u>	<u>161</u>
Income Available for Debt Service	\$ <u>1,536</u>	\$ <u>2,014</u>	\$ <u>3,550</u>

- (1) Operating Revenues - Water Sales  
Sedalia's reported operating revenue from rates was \$26,525. Staff performed a billing analysis which indicated Sedalia's present rates should produce \$26,350 annually, resulting in a \$175 decrease.
- (2) Contract Labor - Operator  
This account has been decreased to reflect the annualization of this expense. The operator is paid \$360 per month; however, the test year included 13 payments. Accordingly,

an adjustment has been made to decrease test year contract labor - operator expense by \$360, to a level of \$4,320.

(3) Contract Labor - Bookkeeping

This account has been decreased to reflect the annualization of this expense. The bookkeeper is paid \$160 per month; however, the test year included 13 payments. Accordingly, an adjustment has been made to decrease test year contract labor - bookkeeping expense by \$160, to a level of \$1,920.

(4) Office Supplies & Expense

This account has been increased by \$34 to normalize test-year telephone expense. Sedalia did not install its own telephone line until August 1994. The average cost of operating that line from August 1994 - June 1995 was \$41.70 per month. Telephone expense for the month of July 1994 was only \$8.05. This adjustment increases July telephone expense to the average level of \$41.70, or \$42.

(5) Legal & Accounting

Sedalia reported test year legal and accounting expense of \$3,600. This account has been decreased by \$2,100 to reflect the actual test year expense of \$1,500. The \$2,100 was paid during the test year but was actually incurred for services performed prior to that time.

(6) Chemicals

This account has been increased by \$397 to reflect an additional six months of fluoride expense. This expense was incurred during the last six months of the test year; however, it is anticipated that fluoride will be purchased and used during the entire year.

ATTACHMENT B  
STAFF REPORT CASE NO. 95-585

SEDALIA WATER DISTRICT  
REVENUE REQUIREMENT DETERMINATION

Adjusted Operating Expenses	\$ 23,704
Average Annual Debt Service	6,453
.20 Debt Service Coverage	<u>1,291</u>
Total Revenue Requirement	\$ 31,448
Less:	
Normalized Test Year Operating Revenue	27,093
Interest Income	<u>161</u>
Recommended Revenue Increase	<u>\$ 4,194</u>

ATTACHMENT C  
STAFF REPORT CASE NO. 95-585

SEDALIA WATER DISTRICT  
RECOMMENDED RATE SCHEDULE

Sedalia's rate schedule consists of a 3-step rate design. It did not propose any change to the rate structure. Staff recommends that the proposed rates be accepted.

<u>Monthly Usage</u>	<u>RATE</u>
First 2,000 gallons	\$ 9.80 (minimum bill)
Next 2,000 gallons	3.20 per 1,000 gallons
Over 4,000 gallons	1.56 per 1,000 gallons